

229832

JUN 09 2011

Part of
Public Record

BEFORE THE
SURFACE TRANSPORTATION BOARD

M&G POLYMERS USA, LLC

Complainant,

v.

CSX TRANSPORTATION, INC.

Defendant.

Docket No. NOR 42123

ERRATA TO OPENING MARKET DOMINANCE EVIDENCE

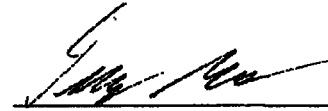
On June 7, 2011, M&G Polymers USA, LLC ("M&G") filed its Opening Market Dominance Evidence. During the production process, a few documents were erroneously omitted from an exhibit or located within the wrong exhibit. M&G is including with this Errata the correct versions of Exhibits II-B-30, II-B-31, and II-B-34.

The replacement Exhibits II-B-30 and II-B-31 should replace the Highly Confidential Version (these exhibits were redacted from the Public Version).

The replacement Exhibit II-B-34 should replace the Highly Confidential paper copy. Exhibit II-B-34 was correct in the Public version (PDF and paper copy) and also correct in the Highly Confidential electronic PDF.

PUBLIC VERSION

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jeffrey O. Moreno", is written over a horizontal line.

Jeffrey O. Moreno
David E. Benz
Thompson Hine LLP
1920 N Street, N.W., Suite 800
Washington, D.C. 20036
(202) 331-8800

June 9, 2011

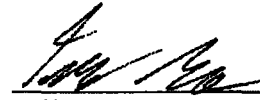
PUBLIC VERSION

CERTIFICATE OF SERVICE

I hereby certify that this 9th day of June 2011, I served a copy of the foregoing upon counsel for defendant CSXT via hand-delivery at the addresses below:

G. Paul Moates
Paul Hemmersbaugh
Sidley Austin LLP
1501 K Street, NW
Washington, DC 20005

Counsel for CSX Transportation, Inc.



Jeffrey O. Moreno

Exhibit II-B-30

**CONFIDENTIAL INFORMATION
REDACTED**

Exhibit II-B-31

**CONFIDENTIAL INFORMATION
REDACTED**

Exhibit II-B-34



(<http://www.joc.com>)

[Home](#) > Long, Winding Road to Recovery

Long, Winding Road to Recovery

Jan 10, 2011 5:00AM GMT

Source:

The Journal of Commerce Magazine
Lawrence Gross and Noel Perry

This will be a turbulent, eventful year for trucking, dominated by capacity issues, primarily on the truckload side. Fueling the turbulence will be a combination of economic and regulatory pressures. With important shoes yet to drop — most significantly, the new hours-of-service ruling from the Federal Motor Carrier Safety Administration — the full extent and timing of the problem is up in the air. The question, however, isn't whether there will be a problem but how bad the problem will be.

The base ingredients for a capacity shortage are wired in, and the main cause won't be equipment, but rather drivers. Truckload motor carrier capacity declined significantly during the downturn, through voluntary downsizing by many carriers and involuntary exits by others. Importantly, the carriers making it through the downturn did so in part by ruthlessly cutting fixed costs, including expensive driver recruitment and training infrastructure. With an ample supply of trained, experienced drivers at the ready, it made no sense to maintain this expensive infrastructure in the face of the most severe traffic downturn in a generation.

Now the situation is turning. Given the severity of the downturn, the economic recovery has been tepid. Fortunately for the transportation industry, it's been led by economic sectors that produce truck freight. The result has been truck freight growth exceeding the overall improvement in GDP. The experienced driver pool has been soaked up and new drivers must be recruited to refill the pipeline. But given the uncertainty of the pace and durability of the recovery, carriers are reluctant to increase their fixed costs by committing to the needed rebuilding of their extensive human resources and training departments.

The result will be a shortage of drivers at a time, paradoxically enough, of 9.6 percent unemployment. The shortage won't be the result of a lack of prospective drivers so much as a shortage of human resource processing capacity on the part of the trucking industry. Although FTR predicts a continuation of the anemic recovery pace, even this will be sufficient to produce a driver shortage rivaling or exceeding the most recent such event in 2004.

To this pre-existing shortage must be added the effects of various regulatory changes bearing down on the industry, including the Comprehensive Safety Analysis 2010 initiative, driver identification requirements, pre-employment screening, electronic on-board recorders and the potential change in hours of service. Although the timing and effect of some of these changes is uncertain, some things are established.

Effective this month, states now require proof of legal residency to issue a driver's license. An estimated 5 percent of the current U.S. population lacks such proof today. Is there any reason to expect the driver population is any different?

CSA 2010 is morphing into CSA 2011 as the administration fine-tunes the reporting requirements and factor weighting. But the outlines of the regulation are coming into sharp focus and there seems to be a consensus that the roll out of implementation this year will prompt an exodus of drivers with substandard safety records from the industry.

Current regulations call for mandatory use of electronic on-board recorders only by problem carriers. In our view, a mandate for industrywide implementation is inevitable. Preliminary reports from those installing EOBRs point toward a short-term reduction in miles per day of around 5 percent.

Hovering over all these other changes is potential revision in hours of service. Although it's difficult to make predictions in any political process, the general belief is there will be some combination of reduction in allowable driving hours along with a requirement for one or more "breaks" during the course of the driving day. There also may be an increase in the hours of rest required to restart the driver clock.

When and if implemented, such changes would result in an immediate and potentially severe reduction in driver productivity, with a commensurate increase in demand for more drivers. If the FMCSA does more than tinker around the edges of the current HOS regulations, a court challenge from the industry is likely. This likely would postpone any changes, perhaps into 2012.

Although many questions remain, we can predict with some confidence these many changes will produce substantial strain on the driver supply, as well as carriers' ability to adapt. The net effect will be to at least double the shortage already in the cards.

How might this shortage change the trucking landscape? Near term, perhaps as soon as the second quarter of this year, expect a bidding war to begin among truckers seeking to attract and retain experienced drivers, with a consequent increase in carrier labor costs. As the shortage intensifies, the shift in pricing power from shipper to carrier that is already well under way will gather momentum. Shippers that mistreated their carrier base during the downturn may come to regret their shortsightedness as carriers become more selective in whom they choose to serve and, in effect, "fire" such customers, forcing them to scramble for capacity in a tightening market.

With driver time becoming ever more precious, there will be operational changes to maximize driver productivity and drive waste out of the system. Shippers that treat drivers favorably and concentrate on getting them in and out expeditiously will be favored, while

those choosing otherwise will find capacity increasingly difficult and costly to obtain. "Drop and hook" operations will take precedence over live-loading in order to maximize the utilization of scarce driving time. The cost differential between unpredictable random-route freight and highly engineered dedicated operations will grow.

The capacity gap will be more acute on the truckload side than in less-than-truckload, which has been holding more unused capacity. Driver turnover is much lower in LTL operations, and driver quality of life is better than in many truckload operations. The LTL side may even benefit to some extent as some partial truckload and multistop operations become more expensive and force volume back into conventional LTL. The industry, however, is vulnerable to changes in HOS regulation, which, if severe enough, would force wholesale re-engineering of driver cycles and networks.

Rail and intermodal largely will benefit from the situation. There is a limited ability to move some truckload freight into rail carload, but this of course is constrained because many facilities lack rail access, so must rely on truck in some form for the first or last mile. Intermodal offers a ready alternative for traffic moving in major long-haul lanes, but its capacity also will be constrained to a certain extent and, given the relatively limited intermodal network, represents only a partial solution.

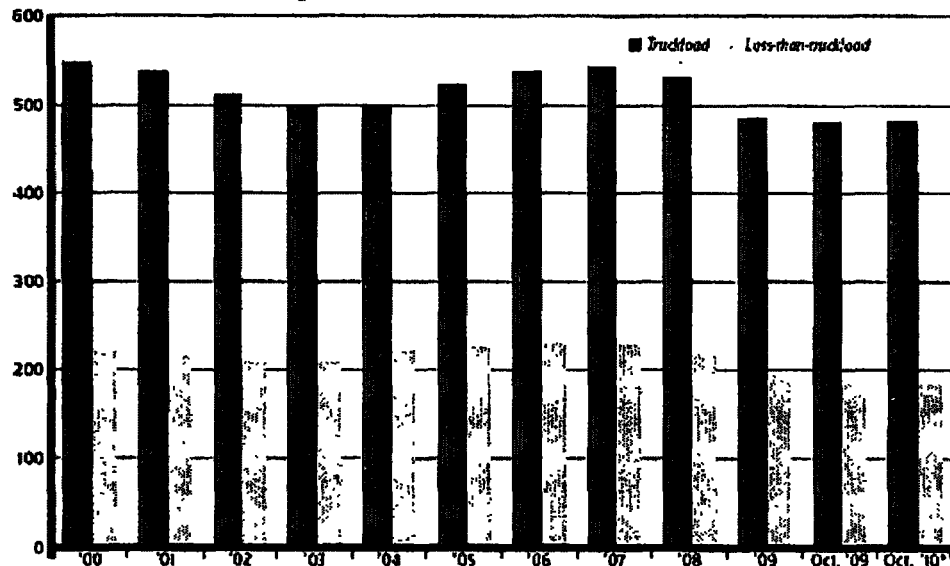
If the shortage gets severe enough, it will pass from a rate issue to a situation where some truck freight simply won't be able to move in a timely fashion. This is a relatively unprecedented situation for our economy and would generate severe pressure on all concerned to fix the problem — and fast. The result might be changes in truck size and/or weight regulations to try to squeeze more productivity out of the driver.

So buckle your seatbelt. We're going to experience some turbulence.

TRUCK DRIVERS DOWNSHIFT

■ Number of truckload and less-than-truckload drivers, in thousands.

The freight recovery hasn't translated to a corresponding increase in truckload and LTL drivers. Although the number of truckload drivers increased 0.6 percent year-over-year in October, there are still 12 percent fewer drivers today than the 548,000 in 2000. On the LTL side, the 184,000 drivers in October was 2 percent less than a year earlier and 20 percent less than the 10-year high of 231,000 in 2006.



*Preliminary.

Source: Bureau of Labor Statistics, www.bls.gov

Noel Perry is managing director and senior consultant for FTR Associates. He can be contacted at nperry@ftrassociates.com. Larry Gross is senior consultant for FTR and can be contacted at lgross@ftrassociates.com.



Truckload Regulation Labor Trucking

Source URL: <http://www.joc.com/trucking/long-winding-road-recovery>



(<http://www.joc.com>)

[Home](#) > Trucking Scrambles to Add Jobs In March

Trucking Scrambles to Add Jobs in March

Apr 1, 2011 3:02PM GMT

Pace of transportation hiring slowed after surge in February

William B. Cassidy

Source:

The Journal of Commerce Online

Trucking showed the strongest employment growth in March among transportation and warehousing industries tracked by the Bureau of Labor Statistics.

Hiring slowed, however, after a surge in employment in February. Trucking added 1,600 jobs in March, compared with 11,000 jobs in February, the BLS said.

The BLS reported transportation employment dropped by about 1,000 jobs in March, while total non-farm payroll employment rose by 216,000.

Most of March's job gains were in service-providing industries, mining and manufacturing employment, according to the seasonally adjusted figures.

Those gains dropped the unemployment rate to 8.8 percent and the total number of unemployed persons dropped from 13.7 million to 13.5 million, the BLS said.

However, even the addition of 12,600 jobs over the past two months only boosts trucking employment 1 percent from January, to about 1,287,200 employees.

Trucking's workforce is still 12.7 percent smaller than it was in March 2007, however, a sign of deep payroll cuts before and during the recession.

Trucking companies are aggressively recruiting truck drivers as freight demand rises, with Holland, a Midwestern carrier, looking to hire 1,000 drivers.

The BLS tracks payroll numbers at about 110,000 for-hire motor carriers, far short of the total number of carriers, but still a significant portion of for-hire trucking.

Trucking employed almost 30 percent of the workers involved in transportation and warehousing last month, the largest segment, according to the BLS figures.

The warehousing and storage industry, the next largest employer in the sector, according to the BLS, lost about 2,900 jobs, falling to 625,400.

— *Contact William B. Cassidy at wcassidy@joc.com.*

Warehousing/Distribution Economy Labor Trucking United States

Source URL: <http://www.joc.com/trucking/trucking-scrambles-add-jobs-march>



(<http://www.joc.com>)

[Home](#) > [Supply, Demand and Price Elasticity](#)

Supply, Demand and Price Elasticity

Mar 21, 2011 4:00AM GMT

Tom Finkbiner

Source:

The Journal of Commerce Magazine

We have all seen vivid demonstrations of supply-demand economics in our daily lives recently. The most graphic example is in the price of oil and its impact on gasoline and other oil-based fuels.

One commentator recently said that for every 1 percent decline in the supply of oil, the price increased 20 percent. This relationship was tied closely to the recent Middle East political uprisings and the news that the only real disruption was the 1 percent reduction in world production represented by the Libyan oil field closures. Of course, much of this impact was in futures market speculation.

A second lesson would be in the housing market, where prices dropped an average of 30 percent nationwide as demand disappeared.

A relevant lesson for the shipping and transportation industry is the 15-year history — perhaps longer — of overcapacity in airline passenger services and the impact on prices. When you have 20 large competitors and a market growing in the mid-single-digits, with each competitor budgeting to double growth compared to market growth and then purchasing 20-year assets to accomplish this goal, you get the equivalent of economic mutual assured destruction.

In truckload transportation and its mirror image equivalent, rail intermodal transportation, we will see a unique event this year in the supply/demand/price equation. Unless we have an economic downturn of unusual and unexpected proportions, we will see a gross reduction in the supply of trucks during a time of economic expansion. The cause of the reduction is the well-publicized trio of a significant increase in the cost of the tractor asset, largely because of environmental regulations; the prospective implementation of the CSA safety initiative; and the potential implementation of tougher hours-of-service driving restrictions and the use of electronic on-board recorders to enforce these regulations.

Many analysts — count me among them — forecast a 10 percent reduction in the number

of drivers available to haul freight. Rail carriers and their partners, meantime, appear to be on track to expand their capacity about 10 percent in 2011.

Until the increase in fuel prices in recent weeks, the economy looked on track to grow GDP about 3 percent in 2010. Because much of the truckload business, particularly retail-related truckloads, comes from overseas, it would be reasonable to forecast growth in the truckload/intermodal market at around 5 percent.

Let's look at that math: With the \$500 billion trucking industry driver supply reduced by 10 percent and the market growing 5 percent, a problem of gigantic proportions appears in the making. Although rail-based intermodal business appears able to grow 10 percent, this is 10 percent of a \$9 billion market. It will not have a significant impact on the lost trucking capacity.

In recent history, we have examples of capacity "tightness" in the truckload market. You could argue that demand for truckload traffic grew between 2005 and 2007 and the supply didn't quite keep pace. We still saw price increases in the upper-single-digits, more than three times normal increases. There was a certain orderliness during this period because, in general, freight was not getting left behind, it was merely delayed or shifted to another mode. Now it appears in less than six months we will see the prospect of freight simply not being moved for lack of capacity.

During times of overcapacity in the trucking, intermodal and air passenger business, price wars among the suppliers tend to break out with some frequency, destroying equity value in these markets. It is more likely in the coming scenario that current freight volumes under contract with large, well-capitalized carriers will mostly be protected. However, customers that outgrow their volume commitments and those unprotected by time/volume contracts or who hold contracts with the wrong carriers are in danger of not getting to market or getting to market at excessive prices.

Here is a practical example. When I was in the temperature-controlled shipping business in 2009, a truckload of oranges moved from Southern California to the New York City suburbs for \$4,500. In January 2010, the California Air Resources Board implemented rules banning refrigeration units on trucks and railcars that were more than 8 years old or that did not comply with the new emissions standards. CARB also hired several hundred officers to enforce this regulation. This had the impact of reducing the supply of trucks available to haul perishables. Six months later, the price of the same truckload was \$6,750 and climbing.

By the end of this year, some shippers actually may perceive a 50 percent premium on truckloads to be a bargain.

Tom Finkbiner is senior chairman for the Intermodal Transportation Institute at the University of Denver and executive vice president of Raillex. The views expressed here do not necessarily reflect those of those organizations. He can be contacted at tfinkbiner52@tampabay.rr.com.

Commentary Economy

Source URL: <http://www.joc.com/commentary/supply-demand-and-price-elasticity>



Shortage of truck drivers predicted

Published: June 9, 2010 at 9:04 PM

WASHINGTON, June 9 (UPI) — Retirements, tougher regulations and a need to replace laid-off drivers mean the trucking industry will need 200,000 drivers by the end of 2011, a report says.

A report sponsored by Penske Logistics, issued by the Council of Supply Chain Management Professionals, notes the U.S. trucking industry has lost almost 150,000 jobs since the start of 2008 due to tougher safety regulations designed to get bad drivers off the road, and those laid off due to the recession and retirements, CNN reported Wednesday.

The author of the report, Rosalyn Wilson, said even though unemployment is high nationwide, the trucking industry will face a challenge finding drivers during the next year and a half.

"It's not a very attractive profession," she said. "People want jobs, but they also want their quality of life, to be home with their family at the end of the work day.

"We're going to need 1 million drivers in next 15 years just to deal with replacing retirees and the normal growth of freight," she said.

Wilson said. In May 2009 the average pay for a trucker was about \$37,730. But more miles and the driver shortage are likely to increase wages in the years ahead, CNN reported.

"How much of a driver shortage we have will depend on how much the economy picks up," she said.

© 2010 United Press International, Inc. All Rights Reserved.

M&G-P-017113



Shortages of trucks and truck drivers stall product deliveries

Updated 9/9/2010 6:26 PM

By Paul Davidson, USA TODAY



By Nati Harnik, AP

American Trucking Association officials say demand is up recently after many operators slashed fleets and staff during the downturn.

Shortages of trucks and drivers are delaying some deliveries of products and raw materials across the USA and raising freight costs.

The crunch is defying a tepid recovery and near-10% jobless rate that should supply a vast pool of unemployed construction and manufacturing workers. Shortages are likely to worsen when the economy heats up and new rules kick in later this year that will make it tougher to hire drivers with poor safety records and could limit the number of hours drivers can work, experts say.

"What's going to happen in six, 12, 18 months?" says Jon Langenfeld of research firm R.W. Baird.

Since June, PPG Industries (PPG), a top glass and coatings maker, occasionally hasn't been able to find trucks to transport glass from its factories to

window fabricators, delaying deliveries a day or two. "If nothing arrives... it can shut a plant down," says PPG supply chain manager Jeffrey Smith.

After plunging in the recession, contract rates are up about 4% in 2010, and spot rates are up as much as 40%, Langenfeld says. About 70% of shippers surveyed reported tight capacity for full truckload service this quarter, up from 27% the first quarter, according to research firm Wolfe Trahan.

COMPEITION FOR TRUCKS: Double-stacked freight trains

JOBS OUTLOOK: Latest data for all states, 384 metros

RECOVERY WATCH: Tracking the economy


Operators slashed their fleets and workforces in the downturn as demand fell 24%, says Bob Costello, chief economist for the American Trucking Association. Thousands of small firms closed, while survivors trimmed fleets an average 14%.

Demand is up 10% this year, Costello says, as manufacturing and retail sales have rebounded moderately. But many firms are struggling to beef up fleets and staff. New truck prices have risen \$25,000 since 2002 because of stricter emission standards, and many smaller carriers can't get loans because of tight credit requirements, Langenfeld says.

Meanwhile, thousands of older drivers retired when they were laid off or saw their workloads cut. Yet it's tough to attract younger workers to a lifestyle that typically means being away from home for weeks at a time for salaries that start at about \$38,000.

Advertisement

Kodak

Bring in any old printer to
 and save an additional
\$50 off any new Kodak Printer

1403 S Reed Road
 Kokomo, 765-452-7422
 1770 Apple Glen Boulevard
 Fort Wayne, 260-459-0902

OFFER EXPIRES 2/19/2011

Print Powered By  FormatDynamics

M&G-P-017114



Costello says. Many of the unemployed prefer to collect jobless benefits, he says.

Combined Transport of Central Point, Ore., has been trying to add 50 drivers to its staff of 370 for months. "We have trucks and trailers sitting around doing nothing," says President Mike Card. He says he turns away two or three jobs a day.

Con-way Truckload (CNW) of Joplin, Mo., which sought 70 drivers this summer, vied with rivals offering \$10,000 bonuses, says President Herb Schmidt. Schmidt and Card recently began screening drivers based on the anticipated safety standards. The criteria could shrink the driver pool 5% to 12%, says Rosalyn Wilson of consulting firm Delcan. She projects a 400,000-driver shortage by 2012.

Advertisement

USA TODAY
AutoPilot ✈️

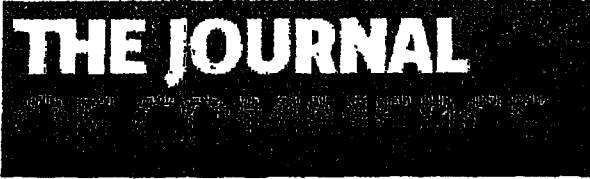
The new travel app for iPhone® and iPod touch®

Presented by *Hampton*

SEE HOW IT WORKS »

Print Powered By **FormatDynamics**

M&G-P-017115



(<http://www.joc.com>)

Home > Truck Market Tightens for Shippers, Index Shows

Truck Market Tightens for Shippers, Index Shows

May 13, 2011 6:07PM GMT

Truck capacity, costs creating 'difficult' environment for shippers, FTR says

William B. Cassidy

Source:

The Journal of Commerce Online

Market conditions are worsening for U.S. shippers as truck capacity tightens and fuel prices and surcharges rise, an index released by FTR Associates shows.

The FTR Shippers' Condition Index dropped 48 percent from minus-7.7 in February to minus-11.4 in March. Any index number below zero is unfavorable to shippers.

At the same time, FTR's Trucking Conditions Index has been rising, climbing 34 percent in the same period to 13.30, the Nashville, Ind.-based company said.

Any reading above zero indicates an "adequate" environment for truckers, FTR said, and a reading above 10 signals prices, volumes and margins are "in a good range."

Normal seasonal weakness early in the first quarter obscured the shifting supply and demand balance in trucking, said Eric Starks, president of FTR.

"Now that we are moving into the higher freight months, the dimensions of the capacity situation are beginning to come into sharper focus," Starks said.

Slower economic growth should stabilize the shipper index and even lead to some modest improvement, said Larry Gross, senior consultant for FTR.

"Such improvement would not, however, change our basic outlook for a difficult environment for shippers through the end of this year and well beyond," he said.

-- Contact William B. Cassidy at wcassidy@joc.com. Follow him on Twitter @wbccassidy_joc.

LTL Truckload Trucking Logistics + Economy

Source URL: <http://www.joc.com/trucking/market-conditions-worsen-shippers-index-shows>

INDUSTRY UPDATE

Transportation: Rail
Transportation: Trucking
May 10, 2011

Jason H. Seidl, Director
jseidl@dahlmanrose.com 212.702.4507

Matthew Elkott, Associate
meklott@dahlmanrose.com 212.702.4506

Research Coverage

Ticker	Rating	Price*	Target
ABFS	Hold	\$24.12	—
CGI	Buy	\$14.65	\$20.00
CNW	Buy	\$39.21	\$44.00
CSX	Buy	\$78.25	\$90.00
JBHT	Buy	\$46.38	\$50.00
VTNC	Buy	\$15.50	\$22.00
WERN	Hold	\$25.93	—
YRCW	Hold	\$1.28	—

*As of 05/09/2011

Industry Veteran's Take on the Trucking Sector for 2011 and Beyond

According to transportation industry veteran Noel Perry, the trucking recovery is likely to be choppy but stronger than many believe. The recovery, however, should start to really take hold in 4Q11 and 1Q12.

Robust Freight Recovery

Mr. Perry indicated that the freight recovery has been better than expected despite the somewhat slow economic environment. The economic climate has been fairly volatile in the last couple years with a few months of positive trends followed by periods of negative or stagnant growth. In addition to the better-than-expected demand environment, supply issues are expected to play a key role in the dynamics of the industry going forward, as likely labor and equipment shortages should create a capacity crunch.

Driver and Equipment Shortages Continue to Loom

Driver shortage continues to loom over the truckload industry due to hours-of-service regulation, CSA 2010, and new proof-of-immigration status requirements for obtaining or renewing a driver license. These regulations, along with tighter in-house hiring standards, the recession-era closure of many driving schools, and many companies' tendencies to wait a couple of years after a recession before ramping up hiring, could cause 300K-400K drivers to be eliminated in the industry, according to Mr. Perry. Additionally, Mr. Perry believes there is a better-than-50% chance of a record truckload equipment shortage on the horizon.

Pricing Should Save the Day

On the bright side, we believe that pricing will begin to improve significantly in 2H11. Mr. Perry believes that price increases in the high single digits are likely in the back half of this year and that price increases in the 11-12% range are likely in 2012. This should offset the increased cost of driver hiring and the likely rise in equipment cost, as well as any slowdown in volume growth resulting from a driver shortage. Due to the favorable pricing and volume growth prospects, our long-term outlook on the TL industry remains favorable.

Please read Required Disclosures & Analyst Certification on the last pages of this report.



Robust Freight Recovery

Mr. Perry indicated that the freight recovery has been better than expected despite the somewhat slow economic environment. The economic climate has been fairly volatile in the last couple years, with a few months of positive trends followed by periods of negative or stagnant growth. In addition to the better-than-expected demand environment, supply issues are expected to play a key role in the dynamics of the industry going forward, as likely labor and equipment shortages should create a capacity crunch.

Driver and Equipment Shortages Continue to Loom over Truckload Industry

Mr. Perry confirmed our view that a driver shortage continues to loom over the truckload industry. This shortage is due to several factors including the hour-of-service regulation, whose objective, among other things, is to lower the driving hour limit (possibly by one hour) and overall duty hours (possibly by another hour). The HOS changes however, could be delayed as the US Department of Transportation (DOT) recently stated it will miss a court deadline to complete work on an HOS study on fatigue. The DOT had been directed by a US court to complete the regulation by July 26, as part of a prior settlement.

Another legislation is CSA (Comprehensive Safety Analysis) 2010, which introduces tighter rules on the way trucking companies conduct their business, largely through enforcing a new set of stricter record-keeping practices in the industry. Mr. Perry believes this is unlikely to go into effect until late 2011 or even 2012. However, when it is finally implemented, it will likely make driver hiring more difficult. For a more detailed discussion of CSA regulations, see our recent note Is CSA the Next Roadblock after Weather and Fuel?

Proof of legal immigration status is set to become a requirement for drivers applying for a new driver license or the renewal thereof. This requirement could affect 5% of total US drivers, a percentage of whom will likely lose their jobs. Mr. Perry estimates that this could result in as many as 50K drivers exiting the market.

These government regulations, along with tighter in-house hiring standards by the carriers to limit safety risk and legal liability, the recession-era closure of many driving schools, and many companies' tendencies to wait a couple of years after a recession before ramping up hiring, could cause about 300K-400K drivers to be eliminated in the industry, according to Mr. Perry's estimates. This is a major concern in an industry that needs to add about 150K drivers per year, just to deal with attrition. Mr. Perry indicated that the hiring of 150K drivers would most likely require the training of 170K drivers, which in turn would have required around 340K drivers to turn in applications. This would imply that the carriers, on aggregate, would have to consider over 1 MM drivers in the initial phase of the hiring process. For a close look at the impact of possible labor costs on the carriers' earnings, see our recent note Truckload Carrier Fuel and Labor Stress Test

Additionally, Mr. Perry believes a greater-than-normal cyclical equipment shortage may be on the horizon. In fact, he believes there is a better-than-50% chance of a record truckload equipment shortage. The companies that will have the highest degree of success in facing



such shortage, according to Mr. Perry, are the ones that will do the best job assigning equipment to loads at the right prices.

The anticipated driver and equipment shortages will likely result in a real physical shortage in trucks in service, which could lead to a number of challenges including cost headwinds from higher driver pay and the negative consequences of missed deliveries. Therefore, we remain concerned about the near- to medium-term prospects of the TL industry and believe that shares of the publicly-traded companies in the space may trade sideways in the near term.

Pricing Should Save the Day

On the bright side, we believe that pricing will begin to improve significantly in 2H11. Mr. Perry believes that price increases in the high single digits are likely in the back half of this year and that price increases in the 11-12% range are likely in 2012 (we note this is far ahead of our current expectations). This should offset the increased cost of driver hiring and the likely rise in equipment cost as well as any slowdown in volume growth resulting from a driver shortage. Due to the favorable pricing and volume growth prospects, our long-term outlook on the TL industry remains favorable.



Valuation Methodology & Investment Risks

Valuation Methodology

We use one-year forward PE multiples to value covered companies in the railroad sector. We support our valuation with EV/EBITDA and tangible book value analysis.

We use one-year forward PE multiples to value covered companies in the trucking sector. We support our valuation with EV/EBITDA and tangible book value analysis.

Investment Risks

Primary Rail Investment Risks -

- ▶ Risk of economic downturns and their impact on rail traffic and pricing.
- ▶ Regulatory risk posing a threat to the railroads' ability to achieve sufficient returns on their investments.
- ▶ The possibility of high-speed passenger rail encroachment.
- ▶ Litigation risk stemming from accidents and fatalities.
- ▶ Competitive threat posed by other modes of freight transportation such as trucking.
- ▶ High capital spending required to build and maintain railroad networks and to replace cars and locomotives.
- ▶ Risk of severe weather disrupting railroad networks.
- ▶ Rising fuel costs and the lag effect of fuel surcharge recovery.

Primary Trucking Investment Risks -

- ▶ Risk of economic downturns and their impact on tonnage and pricing.
- ▶ Litigation risk stemming from accidents and fatalities.
- ▶ Competitive threat posed by other modes of freight transportation such as the railroad sector.
- ▶ Rising fuel prices could significantly increase truckers' operating costs.
- ▶ Environmental concerns and regulations associated with air pollution.
- ▶ Driver availability and stricter driver screening requirements.
- ▶ Risk of severe weather disrupting trucking operations.



Disclosures

Disclaimer:

The information presented in this report is for informational purposes only. It was prepared based on information and sources that we believe to be reliable, but we make no representations or guarantees as to the accuracy or completeness of the information contained herein. This report is not to be construed as an offer to sell or a solicitation of an offer to buy any security. The opinions expressed in this report may change without notice.

Certification:

Each analyst identified in this report certifies in accordance with SEC Regulation AC, with respect to any company and securities discussed in this report, that the recommendations and opinions expressed accurately reflect the analyst's personal views and no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein.

Required Disclosures:

No analyst who participated in the creation of this report owns securities issued by the subject companies.

Dahlman Rose & Company, LLC, and/or its affiliates may have positions in the securities discussed in this report. However, none of those positions equal or exceed 1% of the equity securities outstanding for the subject companies.

Dahlman Rose & Company, LLC, and/or any of its analysts, officers or employees, or any household members do not serve as an officer, director or advisory board member of any of the companies discussed in this report.

Dahlman Rose & Company, LLC intends to seek to be a financial advisor or to engage in investment banking services with one or any of the subject companies discussed in its research reports and may receive compensation for such services during the three months following publication of this Report. As a result, investors should be aware that the firm might have a conflict of interest that could affect the objectivity of this report. For disclosures regarding investment banking activity in the past 12 months, please contact Compliance, Dahlman Rose & Company, LLC, 1301 Avenue of the Americas, 44th Floor, New York, NY 10019.

This report constitutes a compendium report (covers six or more subject companies). As such, Dahlman Rose & Company, LLC, chooses to provide specific disclosures for the companies mentioned by reference. To access current disclosures for the all companies in this report, clients should refer to our [Disclosure Site](#) or contact your Dahlman Rose & Company, LLC, representative for additional information.

Dahlman Rose & Company, LLC is not a tax or legal advisor and provides no legal or tax advice or opinions with respect to the securities recommended in this report.

For disclosures regarding market making activity, please contact Compliance Department, Dahlman Rose & Company, LLC, 1301 Avenue of the Americas, 44th Floor, New York, NY 10019.

Stock Ratings:

Dahlman Rose & Company, LLC assigns the following ratings to the securities of its subject companies:



Buy – The fundamentals/valuations of the subject company are *improving* and the investment return is expected to be 5 to 15 percentage points *higher* than the general market return.

Sell – The fundamentals/valuations of the subject company are *deteriorating* and the investment return is expected to be 5 to 15 percentage points *lower* than the general market return.

Hold – The fundamentals/valuations of the subject company are *neither improving nor deteriorating* and the investment return is expected to be *in line* with the general market return.

Ratings Distribution:

Ratings Distribution & Investment Banking Disclosure				
Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	128	52.90	38	29.89
Hold -rated	109	45.00	38	34.86
Sell -rated	5	2.10	2	40.00